

Health care spending by the Department of Defense (DOD) more than doubled from 2000 to 2005. Increases are projected to continue in coming years and health care will consume 12 percent of the total defense budget by 2015.<sup>1</sup> Spending has grown due to the overall increase in health care costs, new benefits such as TRICARE for Life, and the growing share of retirees, dependents, and survivors in the beneficiary population.<sup>2</sup> These beneficiaries are older, and have more health problems and higher health care costs compared with active duty personnel. TRICARE's cost sharing has not changed since 1995. As a result, while beneficiaries paid 27 percent of the cost of their care in 1995, in 2005 they paid only 12 percent.<sup>1</sup>

Spending has also increased because retirees with other coverage options increasingly use TRICARE rather than civilian coverage. Several factors are responsible for this change, but cost appears to be most important. A survey conducted in 2005 found that only about half of military retirees with access to civilian coverage used it. Among those with access to civilian coverage who opted not to use it, most mentioned the cost, including the higher copays (58 percent) and deductibles (57 percent), of civilian plans. Five percent reported that their employer offered them an incentive to use the military coverage.<sup>3</sup>

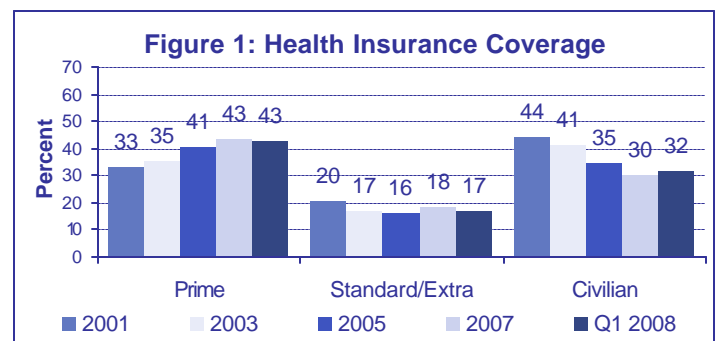
The reported use of incentives is symptomatic of efforts by state and local governments and private employers to encourage their military employees to use TRICARE. Many have offered supplemental insurance reducing employees' cost sharing under TRICARE. To reduce cost shifting, a provision was added to the 2007 Defense Authorization Act, making TRICARE the second payer for beneficiaries with employer-sponsored health insurance. The provision also prohibits employers with 20 or more employees from offering financial incentives to their employees to use TRICARE rather than the employer's health plan. CBO estimated that this provision would save \$119 million in 2008 and \$700 million in 2008-2011.<sup>4</sup>

Retirees enrolled in Prime pay only \$230 per year for single coverage or \$460 for family coverage, compared with the average private-sector employee contribution to health insurance premiums of \$723 for single coverage or \$2,585 for family coverage in 2005.<sup>5</sup> To bring its costs into line with civilian alternatives, DoD has proposed higher enrollment fees for TRICARE Prime and an enrollment fee and higher deductibles for TRICARE Standard and Extra. However, Congress did not approve these changes for 2008.<sup>6</sup>

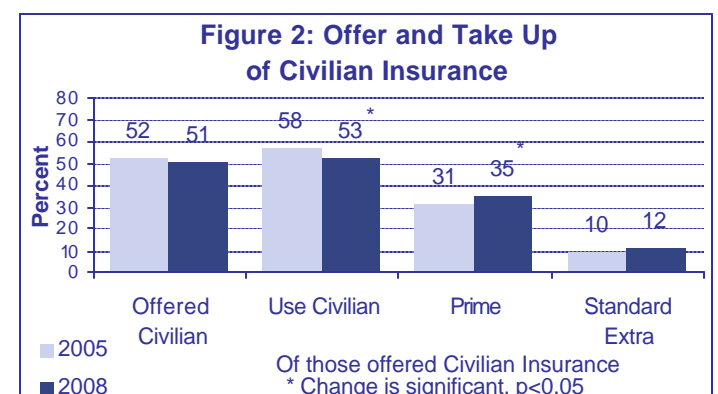
In the 2005 and 2008 HCSDB, beneficiaries were asked about their civilian coverage options. This issue brief addresses the change in uptake of civilian coverage since 2005 and beneficiaries' reasons for choosing TRICARE.

## Use of TRICARE vs. Civilian Care

As shown in Figure 1, retirees' use of TRICARE has grown substantially since 2001. In FY 2001, 54 percent used TRICARE Prime or Standard/Extra for most or all of their health care, increasing to 69 percent in Q1 FY 2008 ( $p < 0.05$ ). During the same period, the proportion with civilian coverage dropped from 44 to 32 percent ( $p < 0.05$ ).

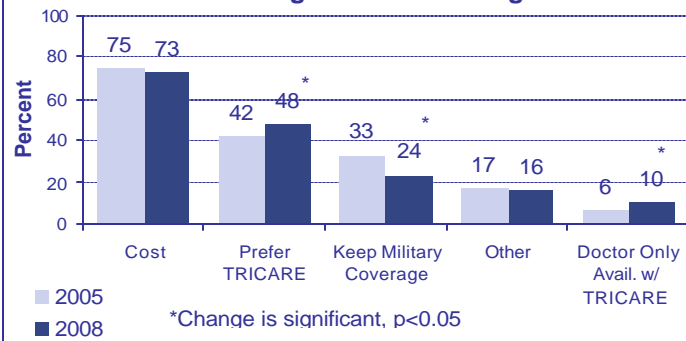


The drop does not appear to be due to declining availability of civilian coverage. As shown in Figure 2, the proportion with access to civilian coverage did not change significantly between 2005 and 2008. Slightly more than half of those surveyed reported access to civilian coverage in both 2005 (52 percent) and 2008 (51 percent). However, significantly fewer with the option of civilian coverage now use it. That proportion dropped from 58 percent to 53 percent. The decline has corresponded to a rise in the proportion relying on TRICARE Prime (increasing from 31 percent to 35 percent,  $p < 0.05$ ) and Standard/Extra (10 percent to 12 percent).



## Issue Brief: Retirees' Use of Civilian Coverage

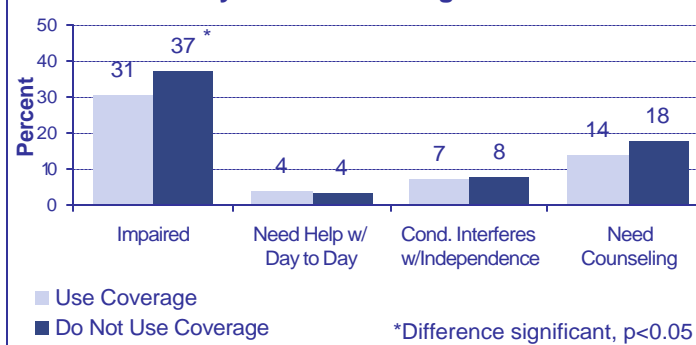
**Figure 3: Reasons For Not Using Civilian Coverage**



### Reasons for Using TRICARE

Both cost and preference for TRICARE play a role in the decision to opt out of civilian coverage. Among those with access to civilian coverage, the majority of TRICARE users in 2005 and 2008 cite either the lower price of TRICARE or desire to avoid the premium for civilian coverage (Figure 3). Fewer, but nearly half, report they use TRICARE because they prefer some aspect of TRICARE, a proportion that has increased significantly since 2005. Twenty-four percent report opting out of civilian coverage to ensure continuing access to the military health system, fewer than in 2005, when 33 percent cited that reason. Finally, 4 percent indicate that their employer or a family members employer pays them not to take employer coverage (not shown, question not asked in 2005).

**Figure 4: Health Care Needs, by Civilian Coverage Use**



Another factor that could influence coverage choices and costs of MHS beneficiaries is their health. Civilian plans with pre-existing coverage restrictions may be less desirable than TRICARE. Conversely, access to specialists needed for treatment of particular illnesses or conditions may be greater with civilian coverage.

As shown in Figure 4, beneficiaries with a civilian coverage option who do not use it are more likely to have a

impairment limiting their activities, but not a condition that results in a need for day to day help. Beneficiaries who need treatment or counseling for personal or family problems are less likely to use their civilian coverage, but the difference is not statistically significant.

### Conclusions

Since 2005, the share of retirees under age 65 with access to civilian coverage has not changed, but the share of those retirees who use TRICARE instead of a civilian plan has increased significantly. TRICARE continues to assume a growing burden of care, and cost, for its retirees, a trend observed in the HCSDB since 2001. Though a substantial number of TRICARE users with other options report preferring TRICARE over civilian coverage, the most often-cited reason for choosing TRICARE, both now and in 2005, is its lower cost. Poor health may also contribute to beneficiaries' choice of TRICARE. Because cost is the single most important factor affecting beneficiaries' health plan choice, increasing the cost of TRICARE is likely to shift beneficiaries back to their civilian coverage. The effect would be limited because retirees have other reasons for choosing TRICARE, including those with high expected costs.

### Sources

<sup>1</sup> GAO-07-647. Military Health care: TRICARE Cost-sharing Proposals Would Help Offset Increasing Health Care Spending, but projected Savings Are Likely Overestimated. Washington DC: Government Accountability Office, May 31, 2007. Available at: <http://www.gao.gov/new.items/d07647.pdf>.

<sup>2</sup> Congressional Budget Office. Growth in Medical Spending by the Department of Defense. Washington DC: Congressional Budget Office, September 2003.

<sup>3</sup> Mariano, Louis T., Sheila Nataraj Kirby, Christine Eibner, and Scott Naftel. Civilian Health Insurance Options of Military Retirees: Findings from a Pilot Survey. Prepared for the Office of the Secretary of Defense. National Defense Research Institute and RAND Health: 2007.

<sup>4</sup> Congressional Budget Office, Cost Estimate, S. 2766, for the National Defense Authorization Act for Fiscal Year 2007. As reported by the Senate Committee on Armed Services on May 9, 2006. Released June 9, 2006.

<sup>5</sup> Association of the United States Army. "New Legislation Affects TRICARE Supplements." 11/07/2007. Available at: <http://www.ausa.org/WEBINT/DeptFamilyPrograms.nsf/byid/L-LOG-78QL3F>.

<sup>6</sup> AHRQ, Medical Panel Insurance Survey- Insurance Component (MEPS-IC), 2005.